

Industrial Distribution

A CAHNERS PUBLICATION

September 1987

- C1850-4
9/17/87

Hotline: Changes
brewing in
MRO markets

SELLING UP: MAKE ORDERS MULTIPLY

Mark Hennessey, Manager
Reynolds & Son
West Springfield, MA

Special: Product showcase
Mechanics' hand tools
(pull-out section)

100PK000
JEANNE LONG
CONGRESSIONAL INFORMATION
4520 EAST-WEST HIGHWAY
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Industrial Distribution®

Vol. 76, No. 9/76th yr.

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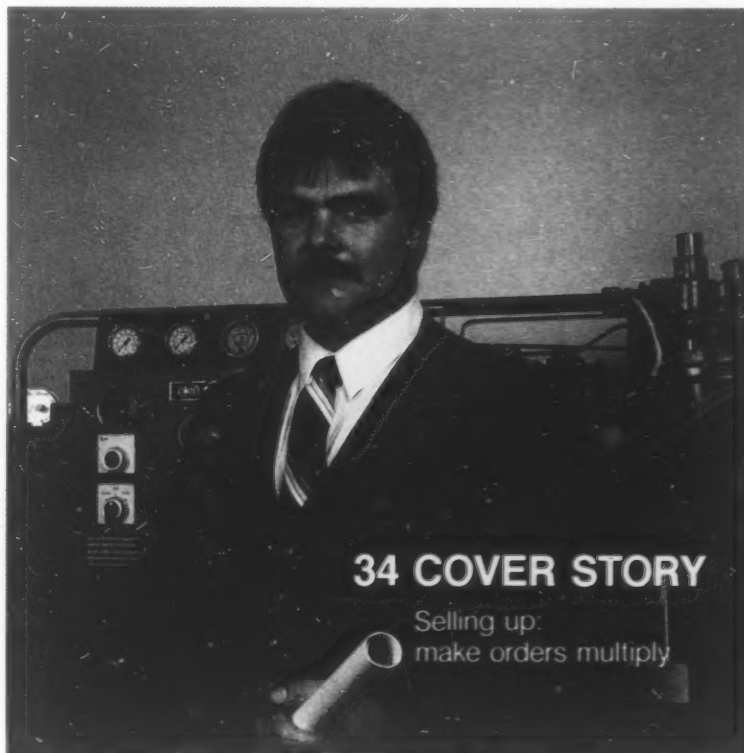
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COMING IN ID . . .

NOVEMBER:
Computer/Telecommunications special report

INDUSTRY NEWS...

Prophet 21 provides computer system for Aggie ID curriculum

YARDLEY, PA—Prophet 21, Inc., which currently has an industrial distribution customer base of nearly 350 business management computer systems, has delivered a second system to the Texas A&M School of Engineering.

Slated for use by students in the school's industrial distribution curriculum, the new system uses Prophet 21's recently developed XL-Series software.

Stephen Pearce, visiting assistant professor in the Engineering Technology Dept., says the school "views the students' experience with the Prophet 21 system as a valuable asset" that can be mar-

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SBS Adds A Bright Sparkle To Distributor Sales.

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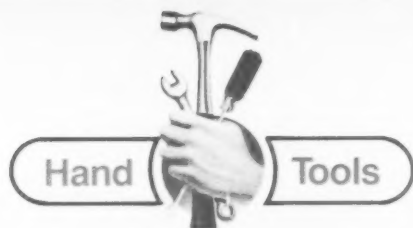
SBS

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Indicators . . .

The *NIDA/SIDA Industrial Distribution Index*, which follows the sales of industrial maintenance, repair and operating equipment, experienced a slight decline in June of 2.4 points, dropping to 140.5. Three of the four reporting geographic regions sustained declines. The East experienced a gain of 0.8 to 133.4, the Midwest was down 1.9 to 115.3, the West was down 5.9 to 174.1, and the South was down 3.1 to 178.4. Overall, the June 1987 national index figure of 140.5 was down 1.2 points from June 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 166.5 for June, up 0.2 points, or a change of 0.1% over the previous month and up 1.8 points, or a change of 1.1% from June 1986 . . . *SIDA's Monthly Sales Trend Report* for May showed a decline from the previous month. The 107 reporting locations experienced a 2.8% decrease in sales for May 1987 as compared with April 1987, but a 6.4% increase in sales for May 1987 as compared with May 1986 and a 7.4 increase for the first 5 months of 1987 as compared with the first 5 months of 1986. In addition, 42 of the association's locations reported increased sales in May 1987 as compared with April 1987, 55 locations reported increases in sales for May 1987 as compared with May 1986, and 54 locations experienced increases for the first 5 months of 1987 as compared with the first 5 months of 1986 . . . The *ASMMA Two-Month Moving Average Index of New Orders, seasonally adjusted*, at 128.0 for May, was 4.8 points higher than in April 1987 . . . The *Federal Reserve Board's Durable Manufacturers Index, seasonally adjusted*, which tracks the performance of the industrial production of durable goods, was up 0.5 points in May to 130.4. □



Where to capture the hand tool dollar

Americans are purchasing hand tools at the rate of nearly \$4 billion per year. By 1995, says New York-based Business Trends Analysts, that figure could easily soar to over \$7 billion.

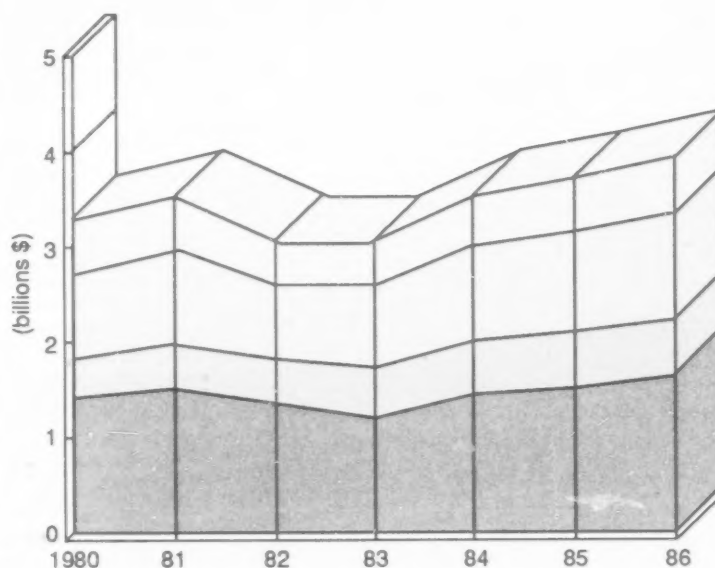
According to figures prepared by *ID* for this report, some 40% of the total market for hand tools is sold by industrial distributors, a value approaching \$1.6 billion. Although the majority of hand tools is purchased by consumers as opposed to commercial end users, opportunity abounds for those distributors prepared to direct their sales efforts accordingly.

Opportunity, however, does not always come easily. The 1985/86 *ID Census of Industrial Distributors* indicates that there are 3,648 specialty hand tool distributors in the U.S. and Canada, and 6,000 distributors overall, carrying hand tools as a regular part of their product line. Add to that the number of hardware stores, lumber yards and retail home centers, and suddenly the road to prosperity seems paved with discount screwdrivers, not higher-priced, higher-grade American products.

Although the U.S. hand tool market is sizeable, there are a number of barriers keeping distributors from accessing every tool segment. One market effectively closed to distributors is the do-it-yourself (DIY) business. According to the Do-It-Yourself Institute, approximately 75% of all American households participate in the DIY marketplace, purchasing tools in every category from automotive repair to home repair.

The DIY market is dominated by some very large players, such as

U.S. manufacturers' sales of hand & edge tools: 1980-1986



Key

- Mechanics' hand service tools
- Hand-operated edge tools
- Other hand tools
- Handsaws, saw blades and accessories

Sales by product category

Year	Mechanics' hand service tools	Hand-operated edge tools	Other hand tools	Handsaws, saw blades and accessories
1980	1,410	392	900	573
1981	1,527	456	966	561
1982	1,331	470	798	441
1983	1,183	506	889	477
1984	1,443	552	998	527
1985	1,531	579	1,063	543
1986	1,641	608	1,108	577
1995	3,216	979	1,982	1,109

Source: U.S. Dept. of Commerce and Business Trends Analysts

John G.F. Bonnanzio
Associate Editor

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Sears, True Value and Pergaments. These "home centers" retail their wares offering, for the most part, lower-priced non-professional-grade tools for the weekend hobbyist. Unfortunately this leaves little opportunity for the distributor to capture any part of this \$1.3 billion market.

After dissecting the various segments of the \$4 billion hand tool industry, what remains for the industrial distributor is a \$1.6 billion share of the pie. Although Dept. of Commerce figures indicate that dollar sales for hand tools have been steadily increasing, the \$4 billion market shrinks to \$2.9 billion when measured in 1980 dollars.

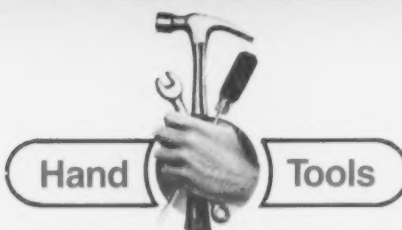
Obviously, this is not the case. Many distributors sell much more than that, many more do not. While most distributors carry a variety of hand tools, little effort is generally made to merchandise them. Often, hand tools are viewed by the distributor as add-on or tie-in products, but as margins are healthy in selling high-grade industrial hand tools, the distributor should look to these products with renewed vigor.

Consider the individual who enters a showroom to purchase a car. The real profit rests not with the car sale, but with the purchase of bank financing, rustproofing, warranties, anti-theft locks, and towing insurance. Few enter a dealership looking to purchase these extras, but most everybody walks out with a trunk-load of add-ons.

Know your market

Of the four basic end-user markets, the largest of these is the DIY segment, which accounts for a third of all tool sales. Following it is the automotive service industry with 29%, the construction industry with 16% and original equipment manufacturers (OEMs) with 8.5%. All other sales to tradespeople (carpenters, plumbers, woodworkers, masons, and electricians) absorb the remaining 13%.

According to Business Trends Analysts, between 1972 and 1979 sales of hand and edge tools grew in real terms at an annual rate of 3.4%. Mirroring this performance was the



GNP, which climbed during that same period at a yearly rate of 3.2%.

If such a formula seems too simple, it also makes for economic sense. Hand tool sales are directly tied to four major manufacturing sectors: automobile production, construction, do-it-yourselfers, and OEMs. Hand tools also show a sensitivity to interest rates. When the cost of borrowing money to purchase an automobile rises, consumption of automobiles and the tools used in their manufacture also declines. The same is true with the housing markets: when mortgage rates climb, housing starts fall and with them, tool consumption.

The mechanics' hand tool market

The largest segment of the hand tool market services the professional mechanic, the do-it-yourselfer and the OEM. In 1985, sales to these hand tool users stood at \$3.6 billion. In the case of hand tools sold to the professional mechanic, 70% of sales are captured by the so-called "wagon jobbers"—vendors who display and deliver their merchandise directly to automotive repair shops and service stations. It is unlikely that a distributor could sell to the mechanics market without offering the same services.

For any distributor looking to increase penetration into this market, one very important fact should not be overlooked. The sale of mechanics' hand tools is directly tied to automobile sales. When passenger car sales rose to 9.2 million units in 1983, hand tool sales skyrocketed 22% the following year.

Imports of foreign-made automobiles also have an effect on domestic hand tool consumption. With few exceptions, offshore manufacturers tool their production standards to the metric system. The greater the number of such cars, the greater the need for metric tools over S.A.E. tools.

Other indicators worth examining are figures denoting the age of the U.S. automobile fleet. As the

motor vehicle population grows older, the hand tool industry prospers. Connecting these two facts is the premise that as the U.S. auto fleet ages it will require more servicing. Therefore, the older the entire automobile population, the better the market for selling hand tools.

While this is good news for the hand tool industry, such benefits only ripple across the marketplace to the industrial distributor. The question then is where can the distributor go to chase the mechanics' hand tool dollars? The most likely place, suggest industry observers, is the OEM market.

The OEM market

The Dept. of Commerce reported that, in 1985, \$313 million worth of products, or 8.5% of all hand tool shipments, were consumed by OEMs. The downside is that as the nation's manufacturing base has shrunk, so too has the hand tool market. By comparison, in 1977 the OEM market stood at 10.1% of manufacturers' hand tool sales, a real decline of 16%. As the three largest OEM end users for hand tools are the auto, appliance and aircraft industries, the opportunity for an immediate turnaround continues to look doubtful.

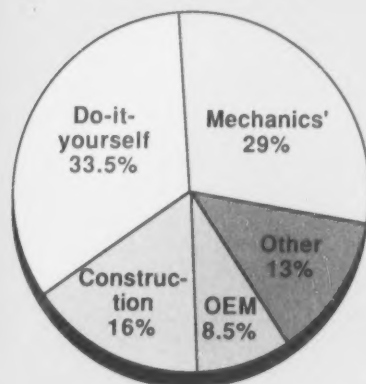
Also working at cross-currents with the hand tool industry is, surprisingly, the re-tooling of industrial America. As older plants are slowly being replaced by newer, more efficient manufacturing facilities, hand tools are being phased-out wherever possible. High technology is taking hand tools away from people and placing power tools in the clutches of computer-numerical-controlled machinery.

One new opportunity emerging for distributors is, ironically, in the electronics market. A newer breed of so-called high-tech hand tools has found a very specialized market niche.

As semiconductor technology and electronic components continue to replace electromechanical systems, tools such as precision awls, diagonal cutters and phosphate-tipped screwdrivers have become essential in the manufacture of

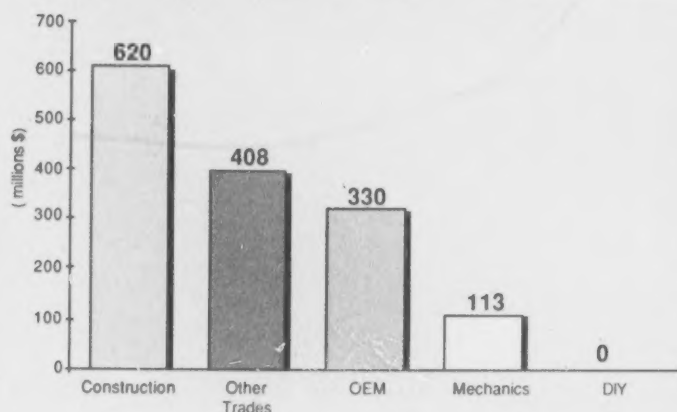
1986 Industry purchases of hand and edge tools

Total: \$3.9 billion



Source: Business Trends Analysts and U.S. Dept. of Commerce

Total purchased through distributors*



*Estimates: Industrial Distribution

printed circuit (PC) boards. Business Trends Analysts notes that sales of tools have grown 15% annually, and it expects to see market growth continue as long as PC-board production remains on American shores.

The construction market

In 1985, the construction hand tool market reached \$590 million, or 16% of the industry's total sales. The greatest growth in the purchasing of hand tools has come from the market for single-family housing starts. Lower interest rates have spurred construction markets, particularly for smaller homes and office construction.

Wes Dils, president of Francis Wagner Co., El Paso, TX, indicates that sales of hand tools in his distributorship lag about 6 months behind building permits. Although hand tools do not make up a large part of his company's overall sales, this useful leading economic indicator helps Dils to forecast the amount of inventory he needs to keep on hand, as well as to ready his business when belt tightening is in order.

Although Dils reports that sales

have been somewhat steady for his company's business, a recent Dun & Bradstreet report states that in 1986 the South was, as it will remain, the nation's worst geographical region for general contractors. "Due to deflated oil prices and a cutback in commercial development," states the report, "the value of new, private, non-residential construction declined 11% from 1985 to 1986."

Other major metropolitan regions of the country are facing a significant oversupply of commercial space. New office construction has slowed nationally, and distributors of hand tools servicing this market have begun to feel its effects.

Additionally, the fallout from the Tax Reform Act of 1986 is having a short-term negative impact on the general contracting industry. Recent restrictions on real estate tax shelters have sharply reduced investment in commercial buildings. For the next several years this deceleration in new capital investment is expected to continue, until rents increase to cover costs more fully.

The future for hand tools

Future sales trends for the hand tool distributor will ultimately de-

pend upon the nation's construction activity, automobile production and original equipment manufacturing. However, according to a growing number of economists, such seemingly extraneous influences as Third World debt, the global economy, unbalanced budgets, and massive trade deficits are now finally haunting the economy.

As major banking centers continue to increase their bad loan reserves, these costs will be passed along the borrowing chain and be paid for by healthier markets. The resulting effect could be a prime lending rate moving upwards in months and years ahead. Also, Congressional resolve for stronger barriers against offshore dumping will, one way or another, have an impact on future trade balances.

Still, labor-intensive manufacturing continues to be undermined by offshore competition and the rate at which government spending on non-income-producing defense projects moves ahead, virtually unimpeded. Like so many other sectors of American industry, hand tool sales and hand tool production will, in the end, depend on the nation's resolve to maintain its industrial economic base. □